

TOP SECRET

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## GENERAL

1. US proposes new air policy regarding Yugoslavia--The Department of State has instructed US Embassy London to inform the UK Government that the US proposes, in view of the breach between Tito and the Kremlin and evidence indicating that Soviet control of Yugoslav air operations has been eliminated, to exempt Yugoslavia from the US-UK restrictive air policy toward the Satellites. The Department indicates that the US proposes to regard favorably the export to Yugoslavia of aviation equipment and the exchange of reciprocal air rights between Yugoslavia and nations friendly to the western powers. The Department advises Embassy London that although the US perceives no danger to the interests of the US in dealing with Yugoslavia on such a basis, it does not desire that friendly states pursue such a policy unless they derive positive benefits from the exchange.
2. Embassy Belgrade's views on Soviet note to Tito--US Embassy Belgrade, in commenting on the 18 August Soviet note to Yugoslavia, points out that the appeal to "healthy elements" in Yugoslavia to revolt against Tito indicates that the Kremlin either: (a) misjudges the Yugoslav character and the internal situation; or (b) estimates that Cominform agents have built a network which justifies a reasonable expectation of a successful revolt. The Embassy indicates that a re-examination of the evidence has not altered its contrary estimate concerning such a network. The Embassy suggests that the note was timed so as to profit by this critical moment in Yugoslavia's economic situation and specifically to coincide with the arrival in Belgrade of a survey mission from the International Bank. The Embassy estimates that the Yugoslav Government will use restraint and do nothing to aggravate the situation but will not back down.

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3. Austrian view on treaty negotiations--Austrian Foreign Minister Gruber has expressed to US Representative Reber in London his view that despite Austria's strong desire for a treaty without delay, a better settlement might be obtained if the major economic issues were reserved for consideration by the Foreign Ministers at the New York meeting of the General Assembly. Gruber is convinced that the USSR will not permit final agreement by the deputies in London but stresses the importance of clearing up minor questions prior to the 1 September deadline for drafting the treaty.

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